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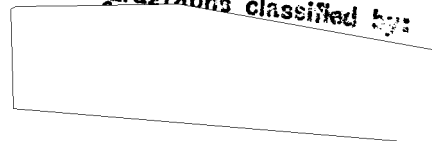
Pakistan: Implications of Labor Emigration to the Middle East



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A Research Paper

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Pakistan: Implications of Labor Emigration to the Middle East

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A Research Paper

This research paper was prepared by [redacted]
[redacted] of the Office of Near East-South Asia
Analysis. Comments and queries are welcome and
may be directed to the Chief, South Asia Division,
NESA, [redacted]

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The paper was coordinated with the Directorate of
Operations and the National Intelligence Council [redacted]

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Confidential**Pakistan: Implications
of Labor Emigration
to the Middle East**

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Key Judgments

*Information available
as of 15 March 1983
was used in this report.*



Pakistan's 1.5 million citizens working in the oil-exporting states of the Middle East and North Africa earn significant benefits for the Zia government:

- Workers' remittances of over \$2 billion in fiscal year 1982 helped Pakistan cover its foreign exchange requirements and provided financing for domestic economic growth.
- Labor emigration has relieved some of the immediate pressure to provide jobs within the domestic labor market.
- The sizable overseas labor force, along with 18,000 military advisers serving in the Middle East, has attracted financial backing and diplomatic support from other Islamic states against the perceived threats from the USSR and India.
- Middle class merchants, traders, and owners of small businesses, who are key supporters of Zia's regime and his Islamization program, have been major beneficiaries of remittance spending.

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Labor emigration, however, also entails economic and political costs for Pakistan:

- Shortages have occurred in certain occupational sectors, particularly in construction, which is important to domestic economic development.
- Remittance spending and higher labor costs foster domestic inflation.
- The armed forces must compete with overseas job opportunities for scarce educated and skilled labor.
- Demands for public services increase as the resources and expectations of the newly rich migrants' families rise.

Growth in demand for foreign labor in the Middle East will slow as major infrastructure projects are completed and lower oil revenues delay new projects. The demand for unskilled workers will grow more slowly than the demand for skilled workers. Although Islamabad will strive to maximize the flow of Pakistani workers, competition from other Asian suppliers with larger reserves of educated and skilled workers will limit its success.

Slowed growth of labor emigration from Pakistan and of remittance inflows to Pakistan will not have a major negative economic or political effect over the next three years but will retard the rate of economic growth if compensatory funding from foreign sources is not forthcoming. Beyond this time frame, however, Pakistan's limited capacity to compete in the changing Middle East labor market will jeopardize its hard currency earnings and the safety valve for domestic unemployment.

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In the unlikely event of a sudden expulsion of hundreds of thousands of Pakistani workers from the Middle East because of an oil price collapse to \$20 per barrel, for example, or political upheaval in the region, Pakistan would be forced to adopt unpopular austerity measures at home and press Western donors for additional financial support to compensate for the abrupt loss of hard currency receipts. Returning migrants would be increasingly responsive to the appeals of opposition political interests, as their thwarted expectations translated into dissatisfaction with the national and provincial governments and potentially into violent protests.

The United States will profit from the continued presence of large numbers of Pakistani workers in the Middle East:

- Zia's hold on the government is strengthened by the labor emigration that serves as a safety valve for domestic unemployment and by the foreign exchange earnings from remittances that help to finance domestic economic growth.
- Continued high levels of remittances would minimize Pakistan's need to turn to the United States or other donors for financial assistance.



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Pakistan: Implications of Labor Emigration to the Middle East

Large-scale emigration of Pakistani workers to the Middle East began only about five years ago. At that time the oil-exporting states were experiencing a surge in revenues from oil price increases while looking with mounting concern at the large numbers of expatriate Arab workers already within their borders. To allay their fears of an eventual political threat from the Arab expatriates, the oil-exporting states began to accept workers from non-Arab countries, particularly from South Asia, to meet the growing demand for labor.

The oil-exporting states turned to Pakistan as a reliable and desirable source of additional manpower, particularly for work on construction projects. Pakistanis were attractive because they were:

- Muslims.
- Willing to do the demanding physical work that others refused.
- Eager to earn the wages that, although low by Middle East standards, are higher than those in Pakistan.
- Less likely than the Arab expatriates to hold political views at odds with the host country regimes and therefore less likely to engage in subversive political activity.

The presence of the Pakistani workers in the Middle East serves several purposes for Pakistan: the workers' savings remitted to their families through official channels help to alleviate the government's chronic shortage of hard currency; the overseas jobs serve as a safety valve for surplus manpower in the domestic economy; and remittance spending benefits the political supporters of the Zia regime.

The Basic Data

The Numbers

We estimate that approximately 1.5 million Pakistanis currently work in the Middle East, a dramatic jump from the 185,000 Pakistanis estimated by the

International Labor Organization and the World Bank to be in the Middle East in 1975 (figure 1).¹ Our estimate is based on survey data collected by the Pakistan Institute of Development Economics (PIDE) which showed 1.25 million Pakistani workers in the Middle East in early 1980 and government estimates of departures and returns since that time. Since the survey counted both legal and illegal migrants, the totals in figure 1 are higher than those reported by host governments in the Middle East.

Saudi Arabia and the United Arab Emirates have the largest numbers of Pakistani migrants. Two-thirds of them were in these two countries in 1975. Five years later, PIDE statistics show that the portion had increased to about three-quarters. Sizable numbers of Pakistanis also work in Kuwait and Libya, and they constitute between a third and a half of the expatriate labor forces in Bahrain, Qatar, and Oman.

The Migrant Workers

PIDE research shows that the migrant labor force differs selectively from the domestic labor force:

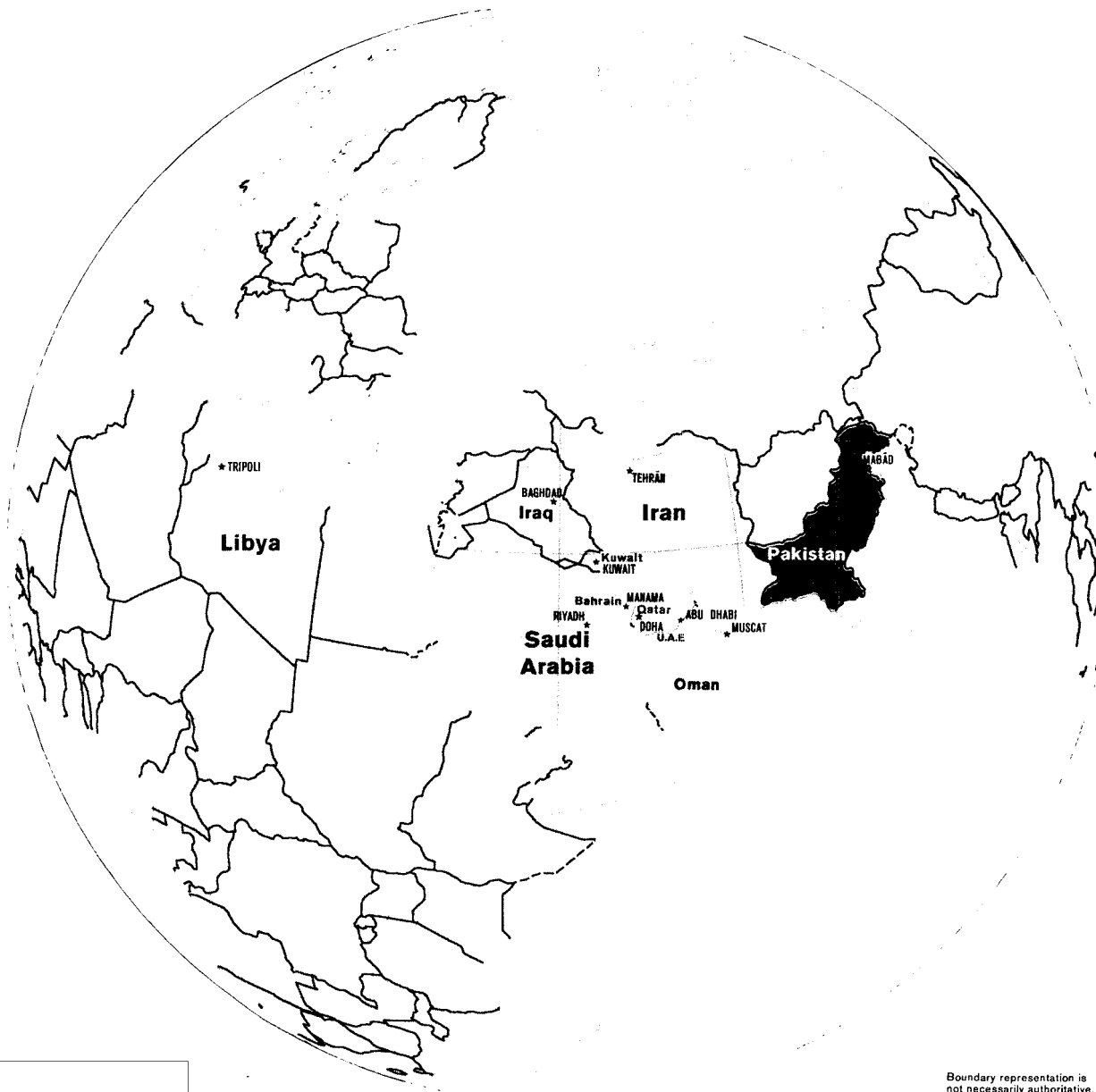
- Nearly all Pakistani migrants are men between the ages of 20 and 35, while the domestic labor force includes women as well as younger and older workers.
- Urban and Punjabi males are more heavily represented in the migrant pool than they are in the domestic labor force.
- A higher percentage of the overseas labor force is in construction than in the domestic labor force—more than 70 percent versus less than 5 percent.
- In general the migrants are experienced workers rather than unemployed or new entrants to the labor force.

¹ US Embassy officials reported higher figures for Pakistanis in the Middle East in the mid-1970s than did the ILO and World Bank. In Saudi Arabia, for example, the Embassy reported 120,000 Pakistani workers rather than the 20,000 estimated by ILO and the World Bank.

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Countries Receiving Pakistani Emigrant Workers

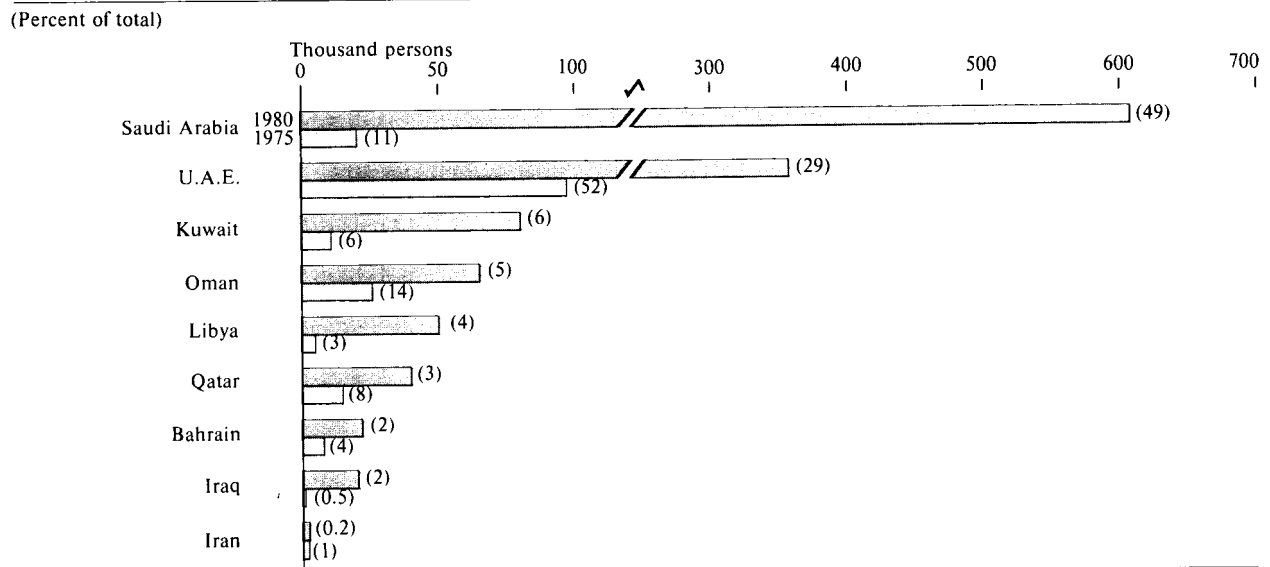


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Figure 1
Pakistan: Emigrant Workers in the Middle East
in 1975 and 1980^a



^a Estimates for 1975 are based largely on official Middle East government figures. Estimates for 1980 are based on World Bank-funded research conducted in Pakistan and for some countries are higher than those reported by Middle East governments.

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The Occupations

According to PIDE research, more than 80 percent of the Pakistani migrants in the Middle East are blue-collar workers, 43 percent of them unskilled and 41 percent of them skilled. Most of the skilled workers are in construction. Of the remaining migrants, 4 percent are professionals and 12 percent clerical, business, sales, or other white-collar workers. About 60 percent of the professionals are engineers.

In certain skill categories, Pakistani migrants represent more than 25 percent of the total domestic pool for that skill: carpenters, painters, engineers, machine operators, electricians, and plumbers (figure 2). Emigration of workers with these skills contributes to domestic shortages of adequately trained individuals as well as to the upward spiral of wages in these trades.

The Wages

The PIDE survey shows that 95 percent of Pakistani workers who left for the Middle East between 1972 and 1980 extended or renewed their contracts to earn wages four to 10 times what they would earn at home. Average earnings are \$11,700 for professionals, \$5,400 for skilled laborers, and \$4,500 for unskilled workers. Migrants spend approximately \$700 to arrange employment and from 20 to 30 percent of their income for living expenses. The balance is saved. According to the PIDE survey, the average Pakistani migrant worker remits about \$3,200 in savings yearly. Two-thirds is sent home through banking channels, one-quarter is returned in cash on home visits, and the rest is brought home as purchased goods.

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Confidential**Profile of a Typical Pakistani Migrant Worker**

- *A 20-year-old male whose family lives in a Punjabi village.*
- *Employed for most of the year before emigration as an unskilled laborer on a Lahore construction site.*
- *Paid \$700 to a private recruiter, who secured a two-year contract for him with a construction subcontractor in Saudi Arabia.*
- *Routinely works long hours, lives frugally with fellow Pakistanis, and earns \$4,500 annually—over six times his wages at home.*
- *Saves \$3,200 annually, 70 percent of his earnings. He remits two-thirds of his savings through official banking channels; the rest he brings home as cash or goods on his annual holiday.*
- *Likely to be cheated at some point during his contract . . . by the recruiter in Lahore, the Pakistani official issuing permits, the foreman on the construction site in Saudi Arabia, or even by his landlord.*
- *Has no legal recourse in the face of mistreatment. Complaints could cost him his contract, his visa, or his job, and result in his return to Pakistan.*

Islamabad's Limited Role

Despite the importance of remittances and labor emigration to Pakistan, we believe that Islamabad's capacity to either expand or curtail labor emigration is limited. PIDE researchers found that the government negotiated only 10 percent of the contracts for overseas employment. Word of job opportunities usually reaches prospective workers from self-employed recruiters or from friends and relatives already in the Middle East rather than from government-sponsored advertising. Islamabad's refusal to issue passports or license recruiters on a selective basis to curtail emigration, we expect, would elicit protests.

As workers' remittances became an increasingly important factor in the country's balance of payments, according to US Embassy reporting, the Pakistan Government took steps to maximize the flow of workers as well as workers' savings. It established agencies to license recruiters and committees to formulate emigration policy, and it posted additional labor attaches to the Middle East to assist workers and to seek new contracts. According to US Embassy reporting, a large bureaucracy that employs retired or seconded military officers now staffs these agencies. The government's efforts since 1980 to attract more remittance money to government-controlled banking channels by tightening regulations have, according to Embassy reporting, been circumvented by some workers who continue to transfer their funds through private channels.

We also believe that the eagerness of Pakistani officials to promote emigration for its economic benefits has outpaced its ability to protect the workers from exploitation. The US Embassy in Islamabad, as well as the Pakistani press, report that corruption in the form of bribes, visa and smuggling rackets, phony recruiters, and assorted confidence games attend each step of the migration process.

The Benefits for Pakistan

Pakistan, in our judgment, perceives that the economic and political benefits of labor emigration and remittances outweigh the costs and risks associated with the flows. The workers themselves view migration to the Middle East as an unprecedented economic boon.

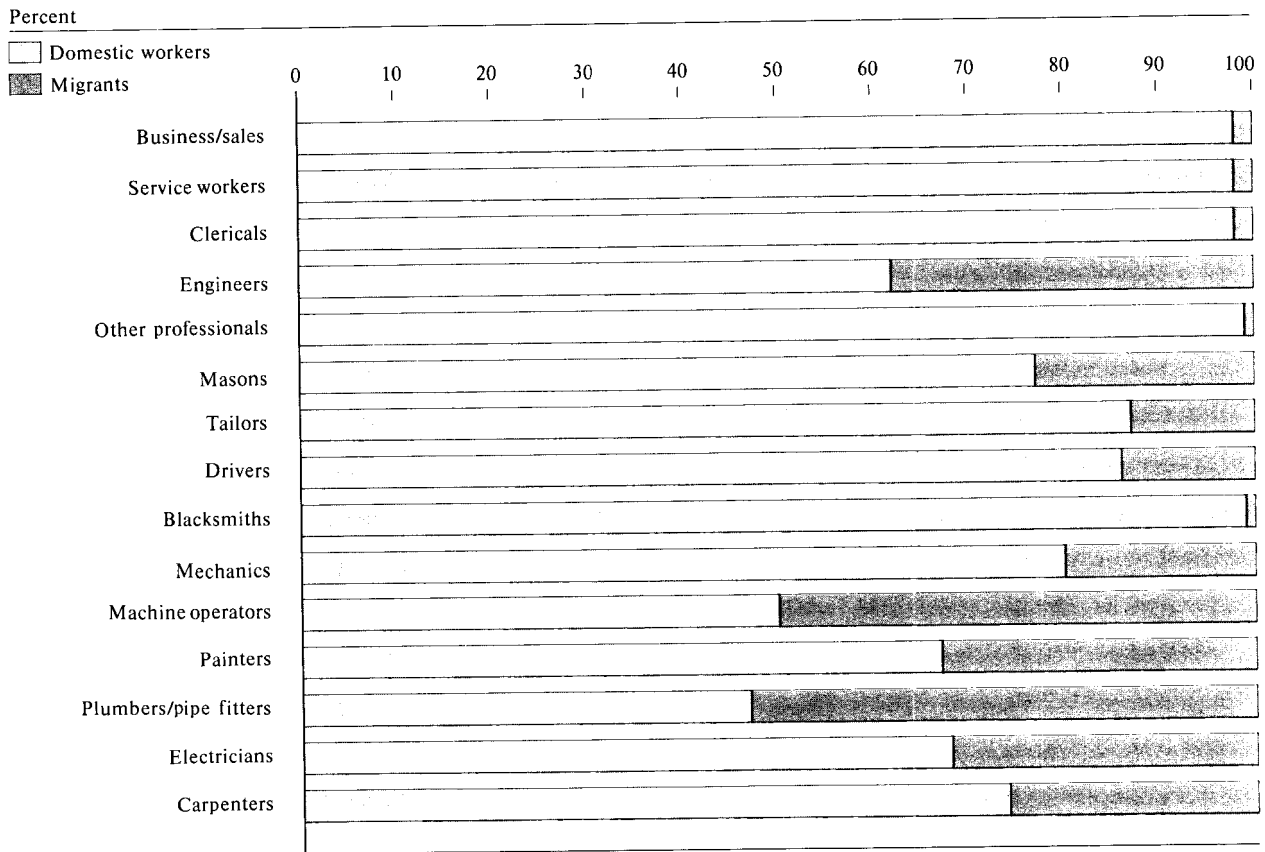
Covering Foreign Exchange Needs

Worker remittances play a critical role in Pakistan's efforts to cover its foreign exchange requirements (table 1). Worker hard currency remittances currently are only slightly less than the value of Pakistan's exports, compared to only 17 percent in fiscal year 1973 (figure 3). In the absence of these cash remittances, we believe that Pakistan would have had to sharply curtail its imports and search for additional

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Figure 2
Pakistan: Migrants as a Percentage Share of
Pakistan's Skilled Labor Forces (1978-79)



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external assistance to meet its foreign exchange needs. Even with the remittances, Pakistan's foreign debt exceeds \$11 billion (table 2). According to government reports, monetary remittances have increased from \$130 million in FY 1973 to a projected \$2.6 billion in the 1983 fiscal year that ends in June. Unofficial government reports indicate that unreported cash remittances and consumer items accompanying returning workers boost this figure to the \$3-4 billion range.

Spurring Economic Growth

Government statistics show that Pakistan's relative international financial stability over the past five years, achieved with the help of remittances, has allowed a steady growth in the economy:

- Real GDP has grown by an average of more than 6 percent annually.
- Real per capita income has increased by an average of 3 percent annually.

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Confidential**Table 1**
Pakistan: Balance of Payments ^a*Million US \$*

	1976	1977	1978	1979	1980	1981	1982 ^b	1983 ^c
Trade balance	-975	-1,286	-1,464	-2,170	-2,516	-2,765	-3,194	-3,397
Exports, f.o.b.	1,163	1,132	1,287	1,646	2,341	2,798	2,427	2,608
Imports, f.o.b.	2,138	2,418	2,751	3,816	4,857	5,563	5,621	6,005
Net services	-356	-385	-392	-452	-524	-459	-515	-658
Receipts	297	305	399	510	678	945	1,113	1,208
Payments	-653	-690	-791	-962	-1,202	-1,404	-1,628	-1,866
Interest on debt	173	202	212	276	290	357	453	524
Net transfers	353	590	1,226	1,496	1,895	2,233	2,285	2,710
Workers remittances	355	578	1,166	1,395	1,748	2,097	2,252	2,550
Current account balance	-978	-1,081	-630	-1,126	-1,145	-991	-1,424	-1,345
Debt amortization	-292	-332	-350	-370	-395	-516	-551	-504
Financial gap	-1,270	-1,413	-980	-1,496	-1,540	-1,507	-1,975	-1,849

^a Fiscal year ending 30 June of stated year.^b Estimated.^c Projected.

- Growth in agricultural production, achieved partly because of increases in acreages planted and imports of agricultural inputs, has averaged about 3 percent per year, and foodgrain self-sufficiency has been achieved. (c)

Despite this impressive record, the Pakistani economy faces growing problems:

- Heavy borrowing and high international interest rates have caused Pakistan's annual debt service obligation to skyrocket to \$1 billion.
- Costly consumer subsidies and nonproductive imports have promoted economic inefficiencies.
- Severe strains remain on the balance of payments. The current account deficit has soared from \$130 million in FY 1973 to \$1.4 billion in 1982. (c)

While a continued flow of remittances is critical to meet international financial obligations, we believe that the contribution of these remittances to domestic economic growth is more difficult to measure. The

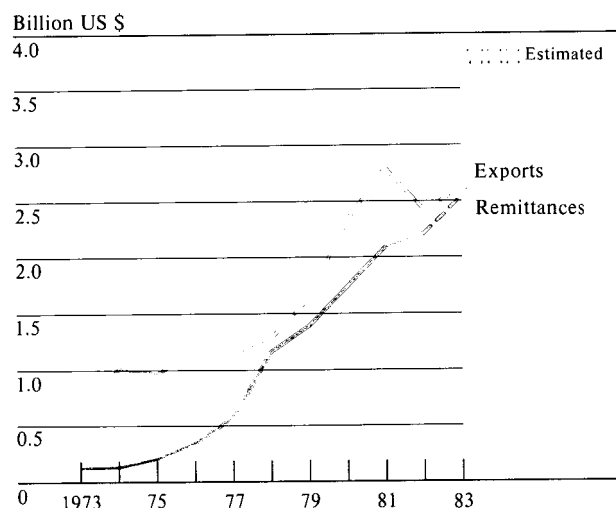
PIDE study shows that only 13 percent of worker remittances are invested or saved. Because those devoted to savings and investment are more likely to be economically productive than those spent on consumer goods, remittances, according to development economists, contribute little to domestic economic development programs.

We believe, however, that returning workers are unfairly targeted as economically wasteful consumers. The purchases of consumer goods, even luxury items and land, recycle money not otherwise available to the domestic economy and may ultimately provide funds for productive investments. According to a Pakistani economist, remittances from overseas workers have financed a rapid expansion of small-scale manufacturing and service establishments. Newly affluent migrant families represent an expanding market for farm implements and consumer items manufactured domestically by small firms.

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Figure 3
Pakistan: Growth in Exports and Remittances



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Safety Valve for Surplus Labor

Worker emigration serves as a safety valve by relieving some of the immediate pressure to provide jobs in the domestic labor market, particularly for unskilled workers.² Pakistan has a labor-surplus economy in which a high rate of unemployment is concealed by massive underemployment. According to official Pakistani labor force data, the domestic labor market can employ effectively only about half of all eligible male workers.

Supporting Foreign Policy Interests

We believe that Islamabad views the export of its civilian workers, as well as approximately 18,000 military advisers, to the Middle East as an important means of attracting financial backing and diplomatic support from the Islamic oil-exporting states against the perceived threats from India and the Soviet Union

Table 2
Pakistan: External Public Debt,
31 December 1980

	Million US \$	Percent
Total	11,300	100.0
Consortium	8,130	71.9
Western Europe	2,410	21.3
Japan	870	7.7
United States	2,380	21.1
Multilateral members	2,470	21.9
Non-Consortium	3,170	28.1
Iran	690	6.1
Kuwait	100	0.9
Libya	70	0.6
Qatar	10	0.1
Saudi Arabia	470	4.2
UAE	150	1.3
China	350	3.1
USSR	590	5.2
Others	740	6.5

in Afghanistan.³ In addition to attaining this financial and diplomatic support, we believe that Islamabad also views Pakistanis working in the Middle East as promoting cooperation among the Islamic states and strengthening worldwide Islamic interests.

We believe, however, that Islamabad is willing to compromise on certain of its foreign policy interests to protect its economic stake in the Middle East. For example, Islamabad reacted cautiously in 1981 when it learned that several hundred Pakistanis, ostensibly recruited to work as security guards in Libya, were being trained as insurgents either to return to Pakistan to challenge Zia or to fight in Chad. Islamabad responded only with a call for an inquiry and quiet diplomatic contacts over several months to secure the

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release of the trainees lest Libya execute its threat to expel an additional 10,000 Pakistani workers if the security guard trainees were recalled. Official Libyan data and US Embassy reporting from Islamabad showing that the number of Pakistani workers in Libya actually increased after this incident support our judgment that Islamabad is willing to accommodate its political interests to its economic ones. [redacted]

Enhancing Nationalism

The enhanced sense of Pakistani identity acquired by the workers as a result of their treatment by employers and other expatriate worker groups during their overseas tours will contribute temporarily, in our view, to a badly needed sense of national unity upon their return. Pakistan, which was created in 1947 on the basis of a common religion, has never successfully attained a sense of national identity from its population of five major ethnic groups and 32 distinct language groups.⁴ Pakistani officials maintain that returning workers tend to be less concerned with purely provincial or local matters than when they left. [redacted]

In our view, policies in the Middle East host countries that isolate the overseas workers and deny them the rights and services accorded to their national populations contribute to the workers' sense of being "Pakistani." Language and other cultural differences, long working hours, and a desire to save as much as possible also discourage contacts with the local populations. Pakistani workers come home with money in their pockets and goods under their arms but, according to a senior US official in Islamabad, with no newly acquired political ideologies. [redacted]

Making Political Capital

We believe that the Zia government will profit politically from continued worker emigration. According to the US Embassy in Islamabad, the lower middle class of bazaar merchants, traders, and owners of cottage industries and small service establishments, which is ideologically attuned to Zia's Islamization program [redacted]

and a key supporter of the regime, is a major beneficiary through increased sales to migrant households. [redacted]

The Drawbacks

Labor migration from Pakistan to the countries of the Middle East and North Africa imposes costs and risks to Islamabad. In our view, Pakistani policymakers underestimate the economic costs and political risks associated with the migration process, particularly those that have a more insidious, long-term effect. [redacted]

Encouraging Inflation

We believe that inflation is the major adverse economic consequence of emigration, although there is no clear-cut cause-and-effect relationship. The outflow of workers pushes up labor costs, (figure 4) which in turn—elevate the prices of locally produced goods. According to government data, wage increases during the 1970s were much higher than the increases in the cost of living. Because the increase in wages is not attributable to an increase in domestic demand for labor, the government concludes that it is tied to the international migration of workers. [redacted]

Although economists generally agree that the enhanced purchasing power of the migrant workers and their families generates pressures on the demand side, statistical evidence available to us is insufficient to show to what extent worker remittances have contributed to inflation:

- Official government statistics show that annual inflation has been relatively constant for the past decade, averaging about 13 percent, and that it has not increased significantly since large-scale migration began.
- The prices for housing and land have increased substantially because of migrant spending but are not included in the government cost-of-living index.

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Consequences of Pakistani Emigration**Benefits**

- *Worker remittances play an important role in Pakistan's economic development by providing an infusion of capital and stimulating domestic demand.*
- *Remittances contribute to Pakistan's relative international financial stability by helping to cover foreign exchange requirements.*
- *Worker emigration serves as safety valve by relieving pressures to provide jobs in domestic labor market, particularly for unskilled workers.*
- *Export of civilian workers, along with 18,000 military advisers, serves as principal means to attract financial backing and diplomatic support from Islamic oil-producing states.*
- *Enhanced sense of Pakistani nationalism acquired by overseas workers contributes to badly needed sense of national unity upon their return.*
- *Remittance spending by migrant households strengthens Zia regime by benefiting lower middle class of bazaar merchants, traders, and owners of cottage industries and small service establishments—key supporters of Zia.*

Drawbacks

- *Worker emigration contributes to inflation by pushing up domestic labor costs and elevating prices of locally produced goods.*
- *Labor emigration causes shortages in certain occupational sectors.*
- *Labor emigration may reduce the strength and capability of the armed forces as young men with technical skills seek overseas employment rather than military careers.*
- *Return of workers as well as the flow of cash remittances will alter traditional political and social institutions, which—in turn—will threaten political stability. Upwardly mobile migrant households will challenge autocratic power of landlords, employers, and tribal and political leaders.*
- *The affluence and rising expectations of migrant households will stimulate greater demand for public services, which may not be met.*
- *Unsettling social changes caused by labor emigration increase psychological stress among migrant families—which indirectly affects political health of country.*

- Wages of workers rose despite widespread underemployment.
- Government action, such as increased defense spending, has also added to the pressure on prices.

Aggravating Domestic Labor Shortages

Despite a continuing high level of domestic underemployment and unemployment, labor migration still causes selected shortages in certain occupations such as engineers, masons, carpenters, electricians, and plumbers. Although we know of no detailed estimates of Pakistan's supply and demand in various job

categories, Pakistan's Planning Commission has maintained on several occasions that the continued outflow of skilled and professional workers seriously hinders the completion of construction projects at home. The private sector, particularly the textile industry, has also complained of shortages of experienced workers.

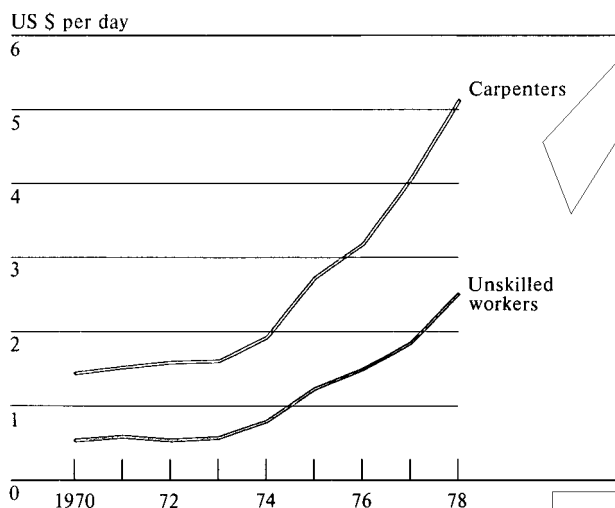
Impairing Military Capability

Emigration, in our judgment, may adversely affect the strength and capability of the Pakistani military

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Figure 4
Pakistan: Wage Rates of Skilled and
Unskilled Construction Workers in Karachi



services. [redacted]

[redacted] a continuation of the present trend in which young men with technical skills seek overseas employment rather than a military career will, over the long run, hurt Pakistan's military capability. The Pakistani press reports that large numbers of the skilled and well-educated population from which the services had formerly recruited prefer to work for better wages as civilians in the Middle East than to choose the traditional option of a military career. US Embassy reporting also notes the Army's increased difficulty in attracting recruits from the Punjab and the North-West Frontier Province, where in the past an Army career provided one of the few means available to poor, young rural men to advance economically and socially. [redacted] the sons of the tribes and families that formerly were dependable sources of recruits now prefer to emigrate to the Gulf and earn large sums of money quickly than commit themselves to what might be a long and lower paying

Army career. The loss of interest in a military career has prompted the government's interest in a draft to meet personnel requirements. [redacted]

Altering Institutions and Challenging Authority

We believe that the return of the newly affluent and more worldly migrant workers to their homes as well as the flow of cash remittances from them to their families will slowly alter the traditional political and social institutions of Pakistan, which—in turn—will indirectly threaten the stability of both the provincial and national governments. [redacted]

The disparity in incomes between the families with a member working overseas, which now account for about 11 percent of all Pakistani households, and nonmigrant families is already made obvious by the more extravagant consumption by migrant households. [redacted]

[redacted] the migrants' families emulate the lifestyles of the traditional monied families. The US Embassy in Islamabad reports that upper and middle class families must now deal with the "nouveau riche" migrant workers' families, whom they considered to be social inferiors less than a decade ago. The PIDE survey shows that migrant households spend most of their remittance incomes on expenditures that conspicuously associate them with the upper and middle classes and set them apart from their less affluent neighbors—on land or on the purchase or renovation of their homes; on appliances, electronic goods, mechanized agricultural equipment, ready-to-wear clothing, or gold jewelry; and on lavish weddings for family members. [redacted]

We expect that these upwardly mobile migrant households will increasingly challenge the traditional authority of landlords, employers, and tribal and political leaders. The US Embassy reports that large landowners and other powerbrokers in the rural areas of Pakistan already have greater difficulty asserting authority over the newly self-sufficient migrant families who expect more from their leaders in return for their loyalty. We believe that patron-client relationships in Pakistan will be under increasing pressure to

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adjust to the changes in the distribution of wealth and prestige in the community occasioned by migration to the Middle East. [redacted]

In the tribal areas of the North-West Frontier Province, Gulf money has provided a greater degree of independence for the tribes, according to Embassy reports. The political agents' promise of financial reward for loyalty means less to tribesmen with access to Gulf money; even punishment for negative behavior may be less feasible as a political control mechanism as the influx of money enables migrant households to purchase expensive and sophisticated arms. [redacted]

Rising Expectations

The affluence and rising expectations of migrant households exert additional pressure on political and social institutions and stimulate greater demands for public services. Should the government fail to respond to these expectations, expressions of dissatisfaction could be a focus for criticism of the regime. Our Embassy reports that families that formerly could not afford education for their children are now demanding it. Villagers who have purchased appliances or electronic gadgets with their new wealth are increasingly insistent that their villages be supplied with electricity. The Embassy reports that many migrant families move to nearby towns and cities to gain access to these services rather than wait for them to reach their village. [redacted]

Increasing Psychological Stress:

The Dubai Syndrome

In our view, the unsettling social changes set in motion by the massive labor migration of the past decade and the accompanying infusion of wealth into traditionally poor areas have increased the psychological stress among the family members of the overseas workers—a factor that cannot be discounted when assessing the political health of the country. According to press accounts, Pakistani doctors have already noted a rise in psychological afflictions among the migrant families. They blame these problems, which they have labeled the "Dubai Syndrome," on the increased stress and responsibilities experienced by family members, especially women left behind who have had to depart from traditional social norms to assume the responsibilities of their missing husbands, brothers, or sons. [redacted]

Future Demand for Pakistani Labor: Feast or Famine?

Future demand for Pakistani workers will depend on economic growth and immigration policies in the Middle East and on Pakistan's ability to balance costs against benefits in the domestic economy and compete with other labor exporters. [redacted]

Costly Choices

We expect Islamabad will soon be faced with costly choices if it is to meet successfully the short- and long-term demand for its labor in the Middle East. It must factor into its calculations such imponderables as worldwide economic growth, changes in host state immigration policies, and competition from other labor suppliers:

- If Islamabad wants to increase the flow of remittances and maximize economic growth, educational aid and training programs will have to be increased dramatically to train the manpower needed to supply both the overseas and domestic work forces. [redacted]
- If Pakistan intends to stabilize the number of migrant workers and focus on the domestic economy, it will have to raise the wage rate for skilled workers, offer other incentives to keep them home, and/or impose strict emigration laws (an alternative not likely to be successful or popular). [redacted]

We expect the fate of Pakistani migrants, however, to rest less on Pakistani manpower developments and policies than on the economies and manpower needs of the labor-importing countries and, perhaps as importantly, on what happens politically in the Middle East. [redacted]

Middle East Manpower Needs

If manpower requirements alone determined the prospects for migrants, expatriate workers would find jobs in the Gulf states for decades. Manpower projections by the Gulf state governments as well as by Aramco show a large gap between projected needs and local labor supplies until well into the next century. Foreign

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maintain so many sectors of the Middle East's economies that no government in the Gulf could end worker immigration—or expel current migrant populations—without seriously damaging its economy and reducing social services to its own population. [redacted]

According to a World Bank manpower requirement projection, even assuming low rates of economic growth, additional foreign workers would be needed in seven major Arab labor-importing countries between 1980 and 1985.⁵ Even though the World Bank projections were made in 1979 before the most recent cutbacks in oil exports and resulting declines in revenues for the oil-exporting countries, we believe that demand for foreign labor will remain strong for several reasons:

- Despite likely cutbacks in domestic development caused by the soft oil market, Saudi Arabia, Kuwait, and the United Arab Emirates have accumulated financial surpluses sufficient to fund some positive economic growth for several years. Kuwait, for example, has for some time forsaken a major industrialization program, and its imports of foreign labor still continue to grow.
- Even as infrastructure investment and construction wind down, the governments will need to recruit sufficient labor to operate and maintain what has been built or will soon be completed.
- Iran and Iraq are likely to again require foreign workers for their reconstruction and development projects once the current conflict ends.
- The economic forecasts that predicted a decline in the need for imported labor following the slump in oil production in 1978 have proved to be unfounded.

Shift in Skill Mix To Heighten Competition for New Positions

The World Bank study forecasts a shift in the skills makeup of the work force. As the Gulf states move from their present development stage of building giant

projects to a maintenance and operations phase, demand for additional workers will shift from largely unskilled and semiskilled to skilled and professional workers. The study projects only a 10-percent growth in imported unskilled labor but a 40-percent growth in skilled and technical labor over the same time frame (figure 5). If oil production and prices remain depressed, as now seems certain, growth in demand for unskilled labor will be even slower as construction and infrastructure projects are delayed. [redacted]

We expect this shift in the mix of skills required in the Middle East to retard the future growth of Pakistani labor migration. Unskilled labor has contributed by far the largest share to the growth of the overseas work force over the past eight years and remains the largest reservoir of surplus labor in the country. With a literacy rate of only 24 percent, according to official statistics, Pakistan has only a thin layer of skilled manpower. Even though demographic and labor studies show that Pakistan will have a large surplus of manpower through the 1980s, we do not believe that it will be able to export a large number of skilled workers and still reach its domestic economic growth targets. [redacted]

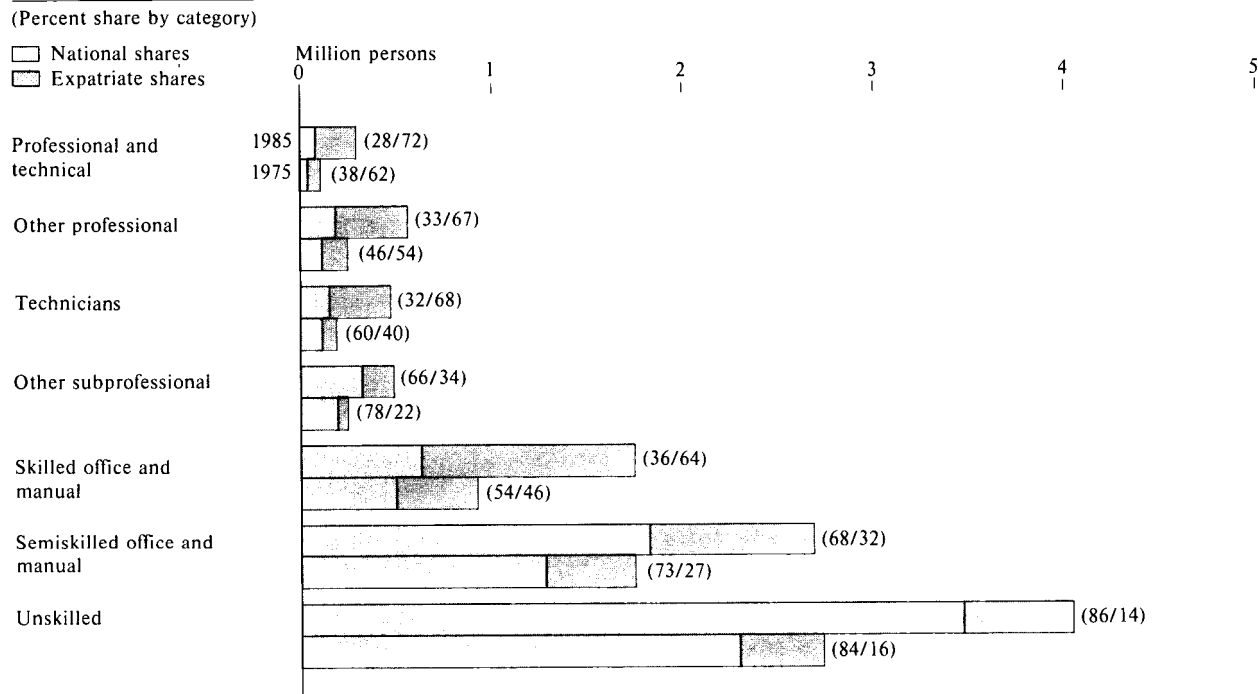
Pakistani workers will also face increasing competition from other labor-surplus states in South, Southeast, and East Asia to fill job openings in the Middle East. According to Embassy reporting, the Bangladesh and Sri Lankan Governments now recognize that labor emigration serves as a safety valve for their domestic unemployment and that remittances have eclipsed earnings for most of their export commodities. Sri Lanka sponsors training programs designed to improve the qualifications of hopeful migrants. Islamabad already faces stiff competition from India, the Philippines, Thailand, South Korea, and Indonesia, which have large numbers of skilled workers and surplus professionals eager to earn higher salaries in the Middle East. Firms from these countries have won contracts to supply not only labor, but capital equipment and management for large projects in the Gulf. [redacted]

⁵ The seven states were Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Algeria, Iraq, and Iran were excluded because they are much less dependent on migrant workers. [redacted]

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Figure 5
Arab Labor-Importing Countries: National and Expatriate Shares
of Employment in 1975 and Projections for 1985, by Occupation



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Outlook

We expect the prospects of Pakistani migrants to depend not only on the manpower needs of the labor-importing countries, but also on what happens politically in the Middle East. The fundamental decisions on immigration—how many migrants are allowed to come, from what countries, for what jobs, at what

wages, and with what rights and benefits—are matters of government policy in the host countries and do not necessarily directly reflect manpower needs.⁶

⁶ Nigeria's expulsion of millions of foreign workers, mostly from Ghana and The Gambia, in early 1983 is an example of government policy's reflecting political pressures more than manpower needs. Although Nigeria has experienced mounting economic pressures and loss of jobs in reaction to the softening oil market, Western observers believe that the timing and severity of the expulsion were more in response to the government's need for a scapegoat for the nation's economic deterioration than to the loss of jobs.

Confidential**Supply Side (Pakistan)**

We believe that Pakistan has some political but little economic leverage to convince the labor-importing states to take its workers. We would expect Islamabad to refer to its credentials as the first modern Islamic state if competition from other South and East Asian suppliers threatened its interests. We would also expect Islamabad to point to its military assistance program as reason for Middle East governments to continue to select Pakistani workers. Given current conflicts and unrest in the region, Pakistan's high visibility as a major supplier of military advisers may actually make its civilian workers more vulnerable to changes in political leadership or ideology in the labor-importing countries. [redacted]

Because demographers project a continued youthful population in Pakistan for the rest of the century, we foresee continued pressures on the job market and high rates of unemployment and underemployment. Judging from the maturity and vitality of present migration flows between Pakistan and the oil-exporting states of the Middle East, the consistently high wages paid, and the social mobility achieved by migrant households with remittance incomes, we believe that the motivation to emigrate for young Pakistani men, unable to find jobs in Pakistan, will remain strong. Politically and economically, the Zia government has much to gain by supporting labor emigration. We therefore expect Islamabad to continue to encourage emigration by facilitating the issuance of exit permits and assuring access to recruiters. [redacted]

Demand Side (Middle East)

Although we do not expect the downturn in oil revenues to curtail the flow of foreign workers to the Middle East, we believe that the growth in demand for foreign labor will decrease. We expect the demand for Pakistani workers in particular will be dampened:

- Pakistan will not be able to supply the more highly skilled and educated workers that will be needed in the maturing economies of the Gulf states. We do not believe that Islamabad's current efforts to expand and upgrade education and training programs to compete in the changing Middle East labor market, as well as to compensate for skill shortages

in the domestic work force, will upgrade workers' skills sufficiently for them to compete with better trained work forces from other countries.

- We believe that Indian and Southeast and East Asian contractors offering lower cost, labor-plus-management "package" deals will capture a greater share of the market for imported labor. Although we expect Islamabad to stress its Islamic identity to counter this competition, we doubt that this will offset the more attractive economic offers of the Asian contractors. [redacted]

Although few Middle East governments could expel their Pakistani workers without seriously slowing the completion of development projects and reducing the level of services to their own populations, we believe that future demand for Pakistani workers will depend on what happens politically as well as economically in the Middle East. If, for example, xenophobic sentiments in the host country are aroused to muster political support either for the regime in power or the opposition, we expect that pressures could be brought on the Pakistanis or on other Asian workers to leave. [redacted]

On Balance

Because we expect a slower rate of expansion of overseas employment opportunities and a continued rapid growth of the domestic labor force, we anticipate that emigration will serve less effectively as a safety valve for domestic unemployment through the rest of the 1980s. We do not believe that the slowed growth in labor emigration will have major negative political and economic effects for the next three years or so. We believe that, so long as the flow of remittances remains at least at the current level of about \$2.6 billion, the Zia government will not be seriously undermined in its efforts to implement its domestic economic programs. We would not expect slowed labor emigration to be politically disruptive under such circumstances. We expect, however, that a continued slowdown in the growth of Pakistani labor emigration and remittances beyond this time frame

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would have an adverse impact on economic growth if compensatory funding from foreign sources were not forthcoming. The most immediate impact probably would be a reduction in imports. The government would also face a narrower range of options in implementing development plans. Borrowing an amount similar to lost remittances would force Pakistan to contend with guidelines set down by commercial banks or international financial institutions. We would expect a heightened risk of antiregime political activity under these belt-tightening conditions. [redacted]

Alternative Outcome [redacted]

If oil prices fall to \$20 per barrel or less and there is no large increase in oil demand, revenues this year for the major oil producers could drop by about \$60 billion from last year's level. Under these circumstances we believe that most of the oil producers in the Middle East would seriously consider scrapping their economic development programs. One of the steps likely to be taken would be a sharp reduction in spending on capital projects that use a large number of foreign contractors and laborers. [redacted]

Either the current regimes in Saudi Arabia and the Gulf or nationalist opposition political groups might consider or advocate expelling large numbers of foreign workers to play on xenophobic sentiments in the Gulf. The governments, in our view, might be willing to temporarily forgo economic growth and the managerial skills and domestic services provided by foreign workers in order to consolidate political support. [redacted]

In the unlikely event of expulsions of several hundred thousand Pakistani workers from the Middle East oil-producing states, we believe that the Pakistani economy and society would be hard pressed to absorb their return. A sharp drop in hard currency receipts would force Islamabad to adopt unpopular austerity measures and press the IMF, Western donors, or Arab sources for additional financial support. [redacted]

If the government failed to meet the economic and social expectations of these numerous returning migrants, a likely event under such a scenario, we expect that this group would become increasingly responsive to the appeals of opposition political interests. We expect returning migrants' unmet demands for electricity, transportation, education, and health services,

as well as their frustration with curtailed opportunities to work overseas, to translate into dissatisfaction with national and provincial governments. At a minimum, we would expect migrant households to increasingly challenge with violent protests or acts of disobedience the traditionally autocratic authority of landlords, employers, and tribal leaders. [redacted]

Implications for the United States [redacted]

We believe that the United States will profit from the continued presence of large numbers of Pakistani workers in the Middle East. The foreign exchange earnings from the workers' cash remittances will provide financing for domestic economic growth, and emigration will serve as a safety valve for unemployment; both, in turn, will help to stabilize Zia's hold on the government. [redacted]

We believe that the slowdown in the growth of remittances that we project under a soft oil market scenario will prompt Islamabad to turn to the United States and to other Western and Arab donors for increased financial assistance in an effort to keep its economic development plans on course. If the drop in remittances is sharper than we expect, as would occur if Middle East oil revenues are cut back much further than most financial analysts currently predict, Islamabad would be even more in need of outside financial aid and, we believe, more likely to turn to the United States for it. We would expect the worsened economic conditions under such a scenario—greater unemployment and underemployment and reduced consumer spending—to heighten domestic political unrest and threaten the Zia regime. [redacted]

We believe that a reduction in the presence of Pakistani workers in the Middle East, particularly if they were expelled under duress or in favor of workers from other countries, would work against US interests. The expulsion of Pakistani workers could drive a wedge between Pakistan and moderate pro-Western regimes in the Gulf and discourage future political and economic cooperation between them [redacted]

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